

Message Text

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PAGE 01 NEW DE 14122 041013Z

12

ACTION NEA-12

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INR-10 L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03

SS-20 USIA-15 ACDA-19 AID-20 COME-00 EB-11 FRB-02

TRSE-00 XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01

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FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 8218

INFO AMEMBASSY LONDON

USMISSION OECD PARIS

USMISSION GENEVA

AMCONSUL BOMBAY

/AMCONSUL CALCUTTA 1618

AMCONSUL MADRAS

C O N F I D E N T I A L NEW DELHI 14122

E.O. 11652: GDS

TAGS: EFIN IN

SUBJ: INDIA'S BALANCE-OF-PAYMENTS: DOOMSDAY IS NOT IN SIGHT

1. WE HAVE PREPARED A PROJECTION OF INDIA'S BALANCE-OF-PAYMENTS DURING THE PERIOD OF THE FIFTH PLAN, WHICH WE ARE SENDING ALONG BY AIRGRAM. IN THIS MESSAGE WE WANT ONLY TO HIGHLIGHT MAJOR CONCLUSIONS AND SOME IMPLICATIONS FOR THE U.S.

2. THE FIRST AND PERHAPS MOST IMPORTANT CONCLUSION IS THAT, BARRING A SERIES OF NATURAL DISASTERS, INDIA IS NOT LIKELY DURING THE NEXT SEVERAL YEARS TO HAVE THE BALANCE-OF-PAYMENTS CRISIS THAT INDIANS CHRONICALLY ASSUME AND SOME FOREIGNERS SEEM TO ACCEPT. IN FACT, ITS BALANCE-OF-PAYMENTS POSITION WILL PROBABLY BE EASILY MANAGEABLE IF OUR FORECAST IS ANYWHERE
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PAGE 02 NEW DE 14122 041013Z

NEAR ON. THE FORECAST COMES OUT WITH AN OVERALL DEFICIT

AVERAGING WELL UNDER \$100 MILLION PER YEAR, WITH A RANGE OF ERROR THAT COULD JUST AS WELL MAKE FOR OVERALL SURPLUSES, ESPECIALLY SINCE NO ALLOWANCE IS MADE FOR POSSIBLE ADDITIONAL ALLOCATIONS OF SDRS. INDIA HAS BEEN IN OVERALL SURPLUS FOR EACH OF THE LAST SEVERAL YEARS.

3. AS AN IMPORTANT POINT, THIS FORECAST ASSUMES THAT INDIA'S SILAS MARNER ATTITUDE TOWARD ITS LARGE FOREIGN EXCHANGE RESERVES AND ITS MERCANTILLISTIC TRADE POLICY--WITH ITS INEVITABLE DETRIMENTAL EFFECT ON OVERALL GROWTH, AND ULTIMATELY EXPORTS--WILL NOT BE MUCH ALTERED. THE FORECAST SUGGESTS THAT INDIA COULD OPEN UP MORE TO THE OUTSDIE WORLD, AS BOTH THE WORLD BANK AND INTERNATIONAL MONETARY FUND HAVE URGED, WITHOUT EXPOSING ITSELF TO A FATE OF INTERNATIONAL BANKRUPTCY.

4. THE FORECAST ALSO IMPLIES THAT: (A) INDIA IS LIKELY TO CONTINUE TO HAVE EXTERNAL FINANCIAL STABILITY; (B) ANY CASE FOR RENEWED U.S. BILATERAL ECONOMIC ASSISTANCE TO INDIA MUST BE BASED ON SOMETHING OTHER THAN BALANCE-OF-PAYMENTS NEED; (C) AND--PERHAPS MOST IMMEDIATE--IN THE MIX OF METHODS OF GETTING RESOURCES INTO INDIA, THERE IS PRESENTLY NO BALANCE-OF-PAYMENTS CASE FOR MASSIVE DEBT RESCHEDULING.

5. IN CONSTRUCTING THIS PROJECTION, DETACHMENT WAS TEMPERED BY CONSERVATISM WHENEVER LEGITIMATE DOUBT AROSE. THE FORECAST HAS BEEN DISCUSSED WITH THE IBRD RESIDENT MISSION HERE AND, WHILE THE BANK PEOPLE HERE HAVE PROBLEMS WITH LINKING RUPEE AND FREE FOREIGN EXCHANGE TRADE AND PAYMENTS IN ONE FORCEAST, THEY RECOGNIZE THAT THE PROBLEM IS INHERENT IN THE CONSTRUCTION OF A BALANCE-OF-PAYMENTS AND ARE UNABLE TO OFFER A SOLUTION. THEY GENERALLY AGREE WITH THE MAGNITUDE OF THE NUMBERS INVOLVED. SINCE THE FORECAST PROVIDES FOR A SIGNIFICANT AMOUNT OF NET AID THROUGHOUT THE PERIOD OF THE FIFTH PLAN, IT IS CLEAR THAT NEITHER WE NOR THE WORLD BANK TAKE SERIOUSLY INDIA'S OFT PROCLAIMED GOAL OF ZERO NET AID BY THE END OF THE FIFTH PLAN PERIOD. NEITHER DO THE INDIANS ANY LONGER.
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